

Agency Sample Notes to the Financial Statements
Commonwealth of Virginia State Health Plans Program
for Pre-Medicare Retirees
For the Fiscal Year Ended June 30, 2018

Instructions – The Agency Sample Footnotes to the Financial Statements for the Virginia State Health Plans Program for Pre-Medicare Retirees are based on the data required by GASB Statement No. 75 and the related information in the Implementation Guide. These are provided by the Department of Human Resource Management as a guide for agencies in the development of their GASB 75 note disclosures.

The GASB 75 schedules referenced in this document can be found in the Excel Spreadsheet entitled “2018 GASB 75 Sample Journal Entries and Schedules.xlsx” on the Contracts and Finance page of the DHRM website at <http://www.dhrm.virginia.gov/contracts-and-finance>.

Within the sample Notes to the Financial Statements, the sample Required Supplementary Information and the sample Journal Entries there are a number of variable items which each agency must fill in using their own unique information. For each of these items, we have identified the source of the information within schedules. Most all of the data in the schedules is contained in the GASB 75 Valuation report from the DHRM actuary.

Covered Employee Payroll (as required by Required Supplementary Information on the last page) is all employee payroll including salary and bonuses for the period.

FOR THE SAMPLE JOURNAL ENTRY, an agency can enter the number of its agency in cell B3 of the JE Template Tab of the Excel spreadsheet. Use the dropdown box to select your agency. Entering the number should populate the amounts from the schedules necessary for the journal entries. The number should be verified by reviewing the accompanying schedules in the spread sheet.

The information in this document is provided as an additional resource for agencies but each agency is responsible for their own Notes to the Financial Statements. Agencies should review the language and other information provided with their auditors.

If you have any questions concerning this information, please contact Jian Martin at (804) 225-2361 or email at Jian.martin@dhrm.virginia.gov

Agency Sample Notes to the Financial Statements

Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees

For the Fiscal Year Ended June 30, 2018

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,600 retirees and 91,000 active employees in the program in fiscal year 2017. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2017 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal

Amortization Method	Level dollar, Closed
Effective Amortization Period	6.43 years
Discount Rate	3.58%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.62% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2017.

Changes of Assumptions: The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates -updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates - lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates - adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At June 30, 2018, the employer reported a liability of \$Appendix A Column C for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$1.3 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2017. The covered employer's proportion of the Pre-Medicare Retiree Healthcare OPEB

liability was based on each employer's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2017, the participating employer's proportion was **Appendix A Column B**% as compared to **Appendix A Column E**% at June 30, 2016. For the year ended June 30, 2018, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of **\$Appendix B Column L**.

At June 30, 2018, the employer reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Deferred Outflows	Deferred Inflows
(1) Difference between actual and expected experience	\$ Appendix E Column C	\$ Appendix E Column H
(2) Changes in assumptions	Appendix E Column E	Appendix E Column J
(3) Changes in proportion	Appendix E Column F	Appendix E Column K
(4) Sub Total	Appendix E Column G	Appendix E Column L
(5) Amounts associated with transactions subsequent to the measurement date	\$ Appendix H Column B	\$ N/A
(6) Total	<u>Calculated</u>	<u>Appendix E Column L</u>

\$ Appendix H Column B reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year End June 30:

2019	Appendix F Column A
2020	Appendix F Column B
2021	Appendix F Column C
2022	Appendix F Column D
2023	Appendix F Column E
Total Thereafter	Appendix F Column F

Sensitivity of the Employer's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.58%, as well as what the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Rate (3.58%)	1% Increase (4.58%)
OPEB Liability	\$ App A Col G	\$ App A Col H	\$ App A Col I

Sensitivity of the Employer's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.62% decreasing to 5%, as well as what the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.0%) or one percentage point higher (9.62% decreasing to 6.0%) than the current rate:

	1% Decrease (7.62% decreasing to 4.00%)	Trend Rate (8.62% decreasing to 5.00%)	1% Increase (9.62% decreasing to 6.00%)
OPEB Liability	\$App A Col J	\$App A Col K	\$App A Col L

Required Supplementary Information

**Commonwealth of Virginia State Health Plans Program
for Pre-Medicare Retirees**

For the Fiscal Year Ended June 30, 2018

Schedule of Employer's Share of Total OPEB Liability	
	2018*
Employer's proportion of the collective total OPEB liability	Appendix A Column B%
Employer's proportionate share of the collective total OPEB liability	\$ Appendix A Column C
Employer's covered-employee payroll	\$ [Insert Amount]
Employer's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	[Calculation: Line 2 divided by Line 3]%
<p><i>Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.</i></p> <p><i>* The amounts presented have a measurement date of the previous fiscal year end.</i></p>	

**Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms – There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates – updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates – lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates – adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index and spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.